ENERGY
SAVINGS INCOME FUND

First Quarter Report

For the three-month period ended June 30, 2006

Fund profile

Energy Savings' business involves the sale of natural gas and electricity to residential and small commercial customers under long-term, irrevocable fixed price contracts (price protected for electricity). Energy Savings offers natural gas in Manitoba, Quebec, British Columbia and Illinois and both gas and electricity in Ontario, Alberta and New York. By securing the price for natural gas or electricity under such contracts for a period of up to five years, Energy Savings' customers reduce or eliminate their exposure to changes in the price of these essential commodities. Energy Savings derives its gross margin from the difference between the price at which it is able to sell the commodities to its customers and the fixed price at which it purchases the matching volumes from its suppliers. Energy Savings trades on the Toronto Stock Exchange under the symbol SIF.UN.

Highlights for the three months ended June 30, 2006 included:

- Q1 gross customer additions of 128,000, up 38% year over year.
- Gross margin of $48.1 million, up 13% year over year.
- Distributable cash after customer replacement of $33.3 million ($0.31 per unit), up 22% year over year.
- Distributions were up 9% year over year.
- During the quarter, announced the Fund's 22nd and 23rd increases in annual distribution rate, to $1.005 payable effective the August payment.

Message from the CEO

Fellow Unitholders,

I am pleased to present the results of our first quarter ended June 30, 2006. Your management team is proud of our results which are consistent with the challenging growth targets we have set for fiscal 2007.

Let me begin with the core of our business, our door-to-door marketing team. Once again, they delivered. The past quarter was the most successful marketing period in the Fund's history. Our independent agents delivered 128,000 new customers, up 38% from Q1 of last year. At the end of the first quarter, our total customers reached 1,588,000, a net increase of 25% from the same point last year.

The chart below illustrates our marketing results and where we are versus both our published targets and last year.

Market	Published Target	F2007 Q1 Additions	% of Target	F2006 Q1 Additions
Ontario – Gas	50,000	14,000	28%	17,000
Rest of Canada – Gas	60,000	23,000	38%	21,000
Electricity	175,000	67,000	38%	40,000
Total – Canada	285,000	104,000	36%	78,000
Gas	100,000	17,000	17%	15,000
Electricity	90,000	7,000	8%	N/A
Total – U.S.	190,000	24,000	13%	15,000
Combined	475,000	128,000	27%	93,000

Obviously, we are very pleased with our marketing results. Each of our markets is performing well. Canadian electricity is well ahead of our published target and results in Alberta have been very strong. While we experienced some operational challenges in the U.S. with our tightening of customer credit scores in Illinois and increased mobility in New York, management believes that the aggregation target will be achieved as marketing will ramp up later this year. I want to thank our whole marketing team, and in particular our independent sales agents, for another exceptional effort this quarter. Your management team is optimistic about our future as we have numerous opportunities to enter attractive new markets in coming years.

Operating results

(millions of dollars)	Q1 F2007	Q1 F2006	Increase	Target Increase
Gross margin	$ 48.1	$ 42.7	13%	15%–20%
Distributable cash	33.3	27.2	22%	15%–20%
Distributions	25.6	23.5	9%	
Payout ratio – after customer replacement	77%	86%		75%–80%

Our operating results tracked our marketing performance. Our gross margin was up 13% year over year, reflecting higher customer numbers. This was a solid result in what is seasonally our lowest quarter. The majority of our current growth is electricity customers for which the lowest cash flow quarter is Q1. Accordingly, we believe we are on track for our published target of 15% to 20% margin growth.

Our distributable cash after customer replacement was up 22%. This is clearly on track for our target increase of 15% to 20% and reflects the strong aggregation results in the prior year. As the best measure of our operating results, I feel that our increase in distributable cash is a reflection of outstanding performance by the entire Energy Savings team.

Our payout ratio after customer replacement is down substantially year over year from 86% to 77%. Given that Q1 and Q2 are our high payout ratio quarters, it shows that Energy Savings is on a very firm footing to support our two distribution increases announced effective the July and August payments. We have now increased our distribution rate 23 times in the five years since our IPO. Energy Savings has never reduced its distribution rate. This is not news to those of you who are Energy Savings Unitholders.

We are proud of our record but it is now in the past. Our obligation to you is to continue to set aggressive growth targets, meet those targets and translate this growth into higher distributable cash. We have done so in the past and are committed to delivering this same result in the future. If we can realize this objective, our 23rd distribution rate increase will not be our last.

I want to thank my fellow Unitholders for their continued support.

Yours sincerely,

Brennan R. Mulcahy
Chief Executive Officer

Management's discussion and analysis ("MD&A")

August 2, 2006

Overview

The following discussion and analysis is a review of the financial condition and results of operations of Energy Savings Income Fund ("Energy Savings" or the "Fund") for the three months ended June 30, 2006. This analysis should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended June 30, 2006 as well as the audited consolidated financial statements and related MD&A contained in the 2006 Annual Report. The financial information contained herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All dollar amounts are expressed in Canadian dollars. Quarterly reports, the annual report and supplementary information can be found under "reports and filings" on our corporate website at www.esif.ca. Additional information can be found on SEDAR at www.sedar.com.

Energy Savings is an open-ended, limited-purpose trust established under the laws of Ontario to hold securities and to distribute the income of its wholly owned operating subsidiaries and affiliates: Ontario Energy Savings L.P. ("OESLP"), Energy Savings (Manitoba) Corp. ("ESMC"), Energy Savings (Quebec) L.P. ("ESPQ"), ES (B.C.) Limited Partnership ("ESBC"), Alberta Energy Savings L.P. ("AESLP"), Illinois Energy Savings Corp. ("IESC") and New York Energy Savings Corp. ("NYESC").

Energy Savings' business involves the sale of natural gas to residential and small to mid-size commercial customers under long-term, irrevocable fixed price contracts. Energy Savings also supplies electricity to Ontario, Alberta and New York customers. By fixing the price of natural gas or electricity under its fixed price contracts for a period of up to five years, Energy Savings' customers offset their exposure to changes in the price of these essential commodities. Energy Savings, which commenced business in July of 1997, derives its margin or gross profit from the difference between the fixed price at which it is able to sell the commodities to its customers and the fixed price at which it purchases the matching volumes from its suppliers.

Forward-looking information

This MD&A contains certain forward-looking information statements pertaining to customer additions and renewals, customer consumption levels, distributable cash and treatment under governmental regulatory regimes. These statements are based on current expectations that involve a number of risks and uncertainties which could cause actual results to differ from those anticipated. These risks include, but are not limited to, levels of customer natural gas and electricity consumption, rates of customer additions and renewals, fluctuations in natural gas and electricity prices, changes in regulatory regimes and decisions by regulatory authorities, competition and dependence on certain suppliers. Additional information on these and other factors that could affect the Fund's operations, financial results or distribution levels are included in the Fund's annual information form and other reports on file with Canadian security regulatory authorities which can be accessed on our corporate website at www.esif.ca or through the SEDAR website at www.sedar.com.

Key terms

"LDC" means local distribution company, the natural gas or electricity distributor for a regulatory or governmentally defined geographic area.

"Long-term customers" represents customers that meet management's required margin thresholds and therefore expect to have the opportunity to renew at the end of their contract.

"Customers not expected to renew" are generally large volume and/or low margin customers who are not part of Energy Savings' target market.

"RCE" means residential customer equivalent or the "customer" which is a unit of measurement equivalent to a customer using, as regards natural gas, 2,815 m^3 (or 106 GJs) of natural gas on an annual basis and, as regards electricity, 10,000 kWh of electricity on an annual basis, which represents the approximate amount of gas and electricity used by a typical household in Ontario.

Non-GAAP measures

Seasonally adjusted gross margin

Management believes the best basis for analyzing both the Fund's operating results and the amount available for distribution is to focus on amounts actually received ("seasonally adjusted"). Seasonally adjusted gross margin is not a defined performance measure under Canadian GAAP. Seasonally adjusted analysis applies solely to the Canadian gas market and specifically Ontario, Quebec and Manitoba.

No seasonal adjustment is required for electricity as the supply is balanced daily.

Cash available for distribution

Cash available for distribution is not a defined term under Canadian GAAP. It refers to the net cash received by the Fund that is available for distributions to Unitholders. Seasonally adjusted gross margin is the principal contributor to cash available for distribution. Distributable cash is calculated by the Fund as seasonally adjusted gross margin, adjusted for cash items including general and administrative expenses, marketing expenses, capital tax, bad debt expense, other income/expense and corporate taxes. Management believes that this is the most useful measure of performance as it provides investors with an indication of the amount of cash available for distribution to Unitholders. This non-GAAP measure may not be comparable to other income funds.

"Distributable cash before marketing expenses" represents the net cash available for distribution to Unitholders prior to marketing expenses and is calculated by deducting cash expenses, including general and administrative expense, bad debts, capital tax, income taxes and other expenses, from seasonally adjusted gross margin. This calculation is not defined under Canadian GAAP. This non-GAAP measure may not be comparable to other income funds.

"Distributable cash after customer replacement" represents the net cash available for distribution to Unitholders as defined above with the deduction of marketing expenses necessary to maintain the Fund's customer base at a stable level equal to that in place at the beginning of the year. This calculation is not defined under Canadian GAAP. This non-GAAP measure may not be comparable to other income funds.

"Distributable cash after marketing expenses" represents the net cash available for distribution to Unitholders as defined above after the deduction of marketing expenses utilized to both maintain and expand the Fund's customer base. This calculation is not defined under Canadian GAAP. This non-GAAP measure may not be comparable to other income funds.

Financial highlights

For the three months ended June 30
(thousands of dollars except where indicated and per unit amounts)

	2006			2005			
	$		**Per Unit**	$		Per Unit	Change
Cash available for distribution							
After customer replacement	**33,280**	**$**	**0.31**	27,175	$	0.25	22%
After marketing expense to add new customers	**24,283**	**$**	**0.23**	21,565	$	0.20	13%
Distributions	**25,559**	**$**	**0.24**	23,463	$	0.22	9%
Payout ratio							
After customer replacement	**77%**			86%			
After marketing expense to add new customers	**105%**			109%			

Operations

Gas – Canadian markets

Ontario, Quebec and British Columbia

In each of the markets that Energy Savings operates, it is required to deliver gas to the LDCs for its customers throughout the year. In Ontario, Quebec and British Columbia, the volumes delivered for a customer typically remain constant throughout the year. Energy Savings does not recognize sales until the customer actually consumes the gas. During the winter months, gas is consumed at a rate which is greater than delivery and in the summer months, deliveries to LDCs exceed customer consumption. Energy Savings receives cash from the LDCs as the gas is delivered, which is even throughout the year.

Manitoba and Alberta

In Manitoba and Alberta, the volume of gas delivered in winter months is higher than in the spring and summer months. Consequently, cash received from customers and LDCs will be higher in the winter months.

Alberta's regulatory environment is different from the other Canadian provincial markets where Energy Savings is required to invoice and receive payments directly from customers. Energy Savings has entered into an agreement with EPCOR Utilities Inc. ("EPCOR") for the provision of billing and collection services in Alberta. EPCOR has been and will continue to be the billing agent for customers aggregated in Alberta.

Gas – U.S. markets

Cash flow from Illinois and New York operations is greatest during the third and fourth (winter) quarters as normally cash is received from the LDC in the same period as customer consumption.

Electricity – Canadian and U.S markets

Cash flow from electricity operations will be greatest during the summer and winter quarters as electricity consumption is typically highest during these periods.

Distributable cash and cash distributions

For the three months ended June 30

(thousands of dollars except per unit amounts)	**2006**		2005	
		Per Unit		Per Unit
Cash available for distribution				
Gross margin per financial statements	**$ 41,160**	**$ 0.38**	$ 37,102	$ 0.35
Adjustments required to reflect net cash receipts from gas sales	**6,953**		5,564	
Seasonally adjusted gross margin	**$ 48,113**	**$ 0.45**	$ 42,666	$ 0.40
General and administrative	**(10,491)**		(8,301)	
Capital tax expense	**(180)**		(207)	
Bad debt expense	**(1,277)**		(534)	
Income tax recovery (provision)	**2,794**		(1,347)	
Interest and other bank charges	**(216)**		(13)	
	(9,370)		(10,402)	
Cash available for distribution before marketing expenses	**38,743**	**$ 0.36**	32,264	$ 0.30
Marketing expenses to maintain customer base	**(5,463)**		(5,089)	
Cash available for distribution after customer replacement	**33,280**	**$ 0.31**	27,175	$ 0.25
Marketing expenses to add new customers	**(8,997)**		(5,610)	
Cash available for distribution	**$ 24,283**	**$ 0.23**	$ 21,565	$ 0.20
Reconciliation to statements of cash flow				
Cash inflow from operations	**$ 34,709**		$ 10,656	
Add:				
Increase (decrease) in non-cash working capital	**(11,266)**		10,097	
Tax effect on distributions paid to the holders of Class A preference shares	**840**		812	
	$ 24,283		$ 21,565	
Distributions				
Unitholder distributions	**$ 23,132**		$ 21,158	
Class A preference share distributions	**2,325**		2,248	
Unit appreciation rights distributions	**99**		55	
	25,556		23,461	
Non-cash distributions – deferred unit grants	**3**		2	
Total distributions	**$ 25,559**	**$ 0.24**	$ 23,463	$ 0.22
Diluted average number of units outstanding		**107.3m**		106.7m

Sales and gross margin analysis

Sales and gross margin – Per financial statements

For the three months ended June 30

(thousands of dollars)			**2006**			2005
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 141,981**	**$ 18,698**	**$ 160,679**	$ 137,021	$ 6,612	$ 143,633
Electricity	**115,852**	**9,019**	**124,871**	90,772	–	90,772
	$ 257,833	**$ 27,717**	**$ 285,550**	$ 227,793	$ 6,612	$ 234,405
Increase	**13%**	**NMF[1]**	**22%**			
Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 24,507**	**$ 1,689**	**$ 26,196**	$ 25,736	$ 941	$ 26,677
Electricity	**14,512**	**452**	**14,964**	10,425	–	10,425
	$ 39,019	**$ 2,141**	**$ 41,160**	$ 36,161	$ 941	$ 37,102
Increase	**8%**	**NMF[1]**	**11%**			

[1] *Not Meaningful Figure.*

Canada

Sales were $257.8 million for the quarter, up 13% from $227.8 million in the first quarter of fiscal 2006. Margins were $39.0 million for the quarter, up 8% from the same quarter in the previous year. Refer to "Sales and gross margin – Seasonally adjusted" for further details.

United States

Sales and margins were $27.7 million and $2.1 million for the quarter. The increase in sales and margin reflects the growth in customer base over the past year. Refer to "Sales and gross margin – Seasonally adjusted" for further details.

Sales and gross margin – Seasonally adjusted[1]

			2006			2005
Sales	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 141,981**	**$ 18,698**	**$ 160,679**	$ 137,021	$ 6,612	$ 143,633
Adjustments	**35,601**	**–**	**35,601**	28,643	–	28,643
	$ 177,582	**$ 18,698**	**$ 196,280**	$ 165,664	$ 6,612	$ 172,276
Electricity	**115,852**	**9,019**	**124,871**	90,772	–	90,772
	$ 293,434	**$ 27,717**	**$ 321,151**	$ 256,436	$ 6,612	$ 263,048
Increase	**14%**	**NMF[2]**	**22%**			
Gross Margin	**Canada**	**United States**	**Total**	Canada	United States	Total
Gas	**$ 24,507**	**$ 1,689**	**$ 26,196**	$ 25,736	$ 941	$ 26,677
Adjustments	**6,953**	**–**	**6,953**	5,564	–	5,564
	$ 31,460	**$ 1,689**	**$ 33,149**	$ 31,300	$ 941	$ 32,241
Electricity	**14,512**	**452**	**14,964**	10,425	–	10,425
	$ 45,972	**$ 2,141**	**$ 48,113**	$ 41,725	$ 941	$ 42,666
Increase	**10%**	**NMF[2]**	**13%**			

[1] *For Ontario, Manitoba and Quebec gas markets.*
[2] *Not Meaningful Figure.*

As noted on the previous page, total sales and margin were $321.2 million and $48.1 million for the quarter, up 22% and 13%, respectively, over the first quarter of fiscal 2006. The increase in sales and margin is primarily attributable to the 25% increase in long-term customers. See “Customer aggregation” for further details.

Canada

On a seasonally adjusted basis, sales were $293.4 million for the quarter, up 14% from $256.4 million in fiscal 2006. Margins were $46.0 million for the quarter, up 10% from the same quarter in the previous year. The increase in total sales and margin is directly attributable to the increase in long-term customers. Margins grew less than sales as a result of the lower target margins associated with electricity customers versus gas customers. Energy Savings had proportionally more electricity customers in 2006 than 2005.

Gas

Gas sales and margins increased by 7% and 1%, respectively, over the prior fiscal year. The increase in sales is attributable to the increase in both customer base and average customer sales price. Margins remained consistent as a result of dispositions of excess gas from the prior year’s warm winter at a margin lower than that which would have been received had the customer consumed the gas.

Electricity

Electricity sales increased by 28% and gross margin increased by 39%. The increase in sales and gross margin is attributable to the increase in customers. The larger increase in gross margin versus sales is attributable to improved gross margin per customer based on management’s decision to increase its electricity target margin from $100/RCE to $110/RCE. Also contributing to the larger increase in margin was reduced supply costs resulting from the Fund’s ability to secure favorable pricing during the Ontario power auctions.

Customers aggregated during the period generate margins at or above Energy Savings’ average annual target margins of $175/RCE for gas and $110/RCE for electricity.

United States

Sales and margins for the quarter were $27.7 million and $2.1 million, the same as on a financial statement basis. Gas sales and margins were $18.7 million and $1.7 million, respectively. The increase in gas sales and margins over the prior comparable period reflects the fact that the customer base has almost doubled from the prior comparative quarter with the further expansion in Illinois and the entry in the New York market.

Electricity sales and margins were $9.0 million and $0.5 million, respectively. Energy Savings entered the New York market in the fall of 2005.

Customers aggregated during the period generate margins at or above Energy Savings’ average annual target margins of $140/RCE for gas and $110/RCE for electricity. The $140/RCE target margin in Illinois includes an allowance for anticipated bad debt expense.

Distributable cash

Distributable cash after customer replacement was $33.3 million for the three months ended June 30, 2006, up 22% from $27.2 million in the first quarter of fiscal 2006. Had the Fund not added incremental customers, it would have had $0.31 per unit available for distribution for the quarter. The Fund paid out 77% of this or $0.24 per unit in distributions. For the prior comparable quarter, the Fund would have had $0.25 available had it not added incremental customers and paid out $0.22 or 86% to Unitholders. The 22% growth in distributable cash after customer replacement was attributable to the increased number of customers and gross margin as well as a corporate tax recovery.

The Fund spent $9.0 million in marketing expenses to grow its customer base in the first quarter of fiscal 2007, in comparison with $5.6 million in the first quarter of fiscal 2006. The result was net customer additions of 86,000 for the first quarter, an increase of 43% from 60,000 net customer additions in Q1 of fiscal 2006.

Distributable cash after marketing expenses was $24.3 million for the quarter, an increase of 13% from $21.6 million in the prior comparable quarter. The increase is directly attributable to the increase in gross margin and tax recovery, offset by the higher general and administrative expenditures and bad debt expense as outlined below (see “General and administrative expenses” and “Bad debt expense”). Marketing expenses increased by 35% over the prior comparative year reflecting the fact that aggregated customers increased by 38%. Cash flow from these new customers begins to be realized two to six months after signing, depending on the market.

After marketing expenses, the payout ratio was 105% for the three months ended June 30, 2006, versus 109% for the comparable quarter.

The Fund’s results reflect greater seasonality as consumption is greatest during the third and fourth quarters (winter quarters). While year over year quarterly comparisons will remain appropriate, sequential quarters will vary materially. The main impact of this will be higher distributable cash with a lower payout ratio in Q3 and Q4 and lower distributable cash with a higher payout ratio in Q1 and Q2. This seasonality will increase as Energy Savings’ continues to expand in Alberta and the U.S.

Management is comfortable that the payout ratios on an annual basis will be within the target ranges of 75% to 80% for payout ratio after customer replacement and less than 100% for the payout ratio after the deduction of marketing expenses.

Net income

Reconciliation to Statements of operations

For the three months ended June 30	**2006**	2005
Net income	**$ 11,005**	$ 11,125
Adjustments required to reflect net cash receipts from sales	**6,953**	5,564
Items not affecting cash	**5,485**	4,064
Tax effect on distributions paid to holders of Class A preference shares	**840**	812
Cash available for distribution	**$ 24,283**	$ 21,565

Energy Savings had net income for the three months ended June 30, 2006 in the amount of $11.0 million, a slight decrease from the previous comparative quarter. The increase in income earned from operations was offset by the decrease in other income relating to the non-cash change in the fair value of the derivative financial instruments.

Summary of quarterly results

(thousands of dollars except per unit amounts)	**F2007**			F2006
	Q1	Q4	Q3	Q2
Sales per financial statements	**$ 285,550**	$ 476,699	$ 321,161	$ 180,049
Net income	**11,005**	17,825	13,217	9,396
Net income per unit – basic	**$ 0.10**	$ 0.17	$ 0.12	$ 0.09
Net income per unit – diluted	**0.10**	0.17	0.12	0.09
Amount available for distribution				
After customer replacement	**$ 33,280**	$ 41,136	$ 35,245	$ 26,465
After marketing expense to add new customers	**24,283**	32,293	26,582	20,760
Payout ratio				
After customer replacement	**77%**	61%	69%	91%
After marketing expense to add new customers	**105%**	77%	92%	116%

	F2006			F2005
	Q1	Q4	Q3	Q2
Sales per financial statements	$ 234,405	$ 406,901	$ 213,649	$ 114,290
Net income (loss)	11,125	27,268	7,042	(2,754)
Net income (loss) per unit – basic	$ 0.11	$ 0.26	$ 0.07	$ (0.03)
Net income (loss) per unit – diluted	0.10	0.26	0.07	(0.03)
Amount available for distribution				
After customer replacement	$ 27,175	$ 22,612[1]	$ 28,700[1]	$ 27,803[1]
After marketing expense to add new customers	21,565	19,454	23,603	22,094
Payout ratio				
After customer replacement	86%	102%	79%	80%
After marketing expense to add new customers	109%	118%	96%	100%

[1]*Allocated based on the annual average for fiscal 2005.*

Energy Savings' operations are seasonal. Gas consumption is typically highest in the third and fourth quarters while electricity consumption is highest in the second and fourth quarters. As a result, quarter over quarter comparisons are a more reliable basis for analysis than sequential quarter comparisons, as results from quarter to quarter may vary materially due to seasonality.

Long-term customers

Canada	Beginning	Additions	Attrition[5]	Failed To Renew[6]	Ending
Gas					
Ontario	614,000	14,000	(14,000)	(7,000)	607,000
Other markets[1]	191,000	23,000	(3,000)	–	211,000
Total – Gas	805,000	37,000	(17,000)	(7,000)	818,000
Electricity[2]	564,000	67,000	(8,000)	(1,000)	622,000
Total – Canada	1,369,000	104,000	(25,000)	(8,000)	1,440,000
United States					
Gas[3]	107,000	17,000	(6,000)	–	118,000
Electricity[4]	26,000	7,000	(3,000)	–	30,000
Total – United States	133,000	24,000	(9,000)	–	148,000
Combined	1,502,000	128,000	(34,000)	(8,000)	1,588,000

[1] *Includes Quebec, British Columbia, Manitoba and Alberta.*
[2] *Includes Ontario and Alberta.*
[3] *Includes Illinois and New York.*
[4] *Includes New York only.*
[5] *Attrition – Customers whose contracts were terminated primarily due to relocation or death, or canceled by Energy Savings due to delinquent accounts.*
[6] *Failed to Renew – Customers who did not renew expiring contracts at the end of their term.*

Customers not expected to renew

In addition to the long-term customers, Energy Savings has an additional 84,000 customers (5,000 gas and 79,000 electricity) who were acquired through various acquisitions of customer contracts. These customers generate substantially less margin than is typically realized on customers aggregated by Energy Savings and, on average, have less than one year remaining until the end of their contracts.

Attrition

Overall, attrition was 9% on an annualized basis. Attrition in Canada was 7%, which is below the 10% customer attrition rate used for internal purposes. Attrition in the State of Illinois was 19%, slightly above the 15% used for internal planning purposes. Attrition levels are high for the quarter as a result of customer defaults from the winter season.

Given that Energy Savings began marketing in New York during the fall of 2005, sufficient history is not available to provide meaningful attrition information. Based on experience to date, management anticipates that the attrition level in New York will be higher in the short term due to the regulatory environment which currently provides high customer mobility. Management continues to monitor attrition and has actively taken measures to minimize attrition in all markets. Energy Savings also believes based on recent discussions with regulators in New York that regulatory changes regarding mobility will be implemented in the near term. This form of legislation is present in all other markets in which Energy Savings currently markets. Due to the results experienced to date, management has increased the U.S. attrition rate used for planning purposes from 15% to a range of 15% to 20%.

Failed to renew

The renewal rate for gas customers who have completed the term of their contract remains above 80%. To date, less than 1% of electricity customers aggregated by Energy Savings have reached their first renewal date.

Gross additions (excluding acquisitions)

Energy Savings' published targets for fiscal 2007 were gross customer additions, excluding acquisitions of 475,000. The following table shows the aggregation during the quarter compared with these targets. Overall, Energy Savings aggregated 128,000 RCEs during the quarter, the most successful marketing quarter in the history of the Fund.

Gross Customer Additions	**Q1 F2007**	Annual Published Target	Realized To Date	Q1 F2006	Increase
Canada					
Gas					
Ontario	**14,000**	50,000	28%	17,000	(18%)
Other markets[1]	**23,000**	60,000	38%	21,000	10%
Total – Gas	**37,000**	110,000	34%	38,000	(3%)
Electricity[2]	**67,000**	175,000	38%	40,000	68%
Total – Canada	**104,000**	285,000	36%	78,000	33%
United States					
Gas[3]	**17,000**	100,000	17%	15,000	13%
Electricity[4]	**7,000**	90,000	8%	–	N/A
Total – United States	**24,000**	190,000	13%	15,000	60%
Combined	**128,000**	475,000	27%	93,000	38%

[1] *Includes Quebec, British Columbia, Manitoba and Alberta.*
[2] *Includes Ontario and Alberta.*
[3] *Includes Illinois and New York.*
[4] *Includes New York only.*

Canada

Gas

Total gross gas customer additions in Canada were 37,000 (34% of the published annual target). Customer additions in Ontario and other Canadian markets were 14,000 and 23,000, respectively, representing 28% and 38% of the respective published annual targets. It is anticipated that Alberta will continue to be the primary source of net customer growth in the Canadian gas market.

The Canadian gas customers added through marketing efforts during the period were matched with supply to generate margins at or above Energy Savings' average annual target margin of $175/RCE over the life of the contract.

Electricity

Total electricity additions were 67,000 for the quarter (38% of the published annual target). The primary contributor of the marketing results was the Ontario electricity market although results from Alberta remain strong.

The electricity customers added through marketing efforts during the quarter were matched with supply to generate margins at or above Energy Savings' average annual target margin of $110/RCE over the life of the contract.

United States

Customer additions in the Illinois and New York gas markets were 17,000 for the quarter, representing 17% of the published annual target. Customer additions in the New York electricity market were 7,000, representing 8% of the published annual target.

Management anticipates that the majority of the customer additions in the U.S. will occur in the latter half of fiscal 2007 as marketing efforts continue to ramp up. During the quarter, two additional sales offices were opened, one in Illinois and the other in New York. In addition, management anticipates entry into two new U.S. markets in the latter half of fiscal 2007.

Both Illinois and New York experienced operational challenges during the quarter. In Illinois, the credit review process was tightened in order to mitigate delinquency which resulted in lower customer additions. Despite these challenges, management continues to believe that the annual U.S. target of 190,000 gross additions remains reasonable.

The customers added through marketing efforts during the quarter were matched with supply to generate margins at or above Energy Savings' average annual target margin of $140/RCE for gas customers and $110/RCE for electricity customers over the life of the contract.

General and administrative expenses

General and administrative costs were $10.5 million for the three months ended June 30, 2006, representing an increase of 26% from the first quarter of the previous fiscal year. The increase in general and administrative costs over the prior comparable quarters was primarily driven by the additional infrastructure and support necessary to support the Fund's continued customer growth as well as the expansion into new markets.

Unit based compensation

Compensation in the form of units (non-cash) granted by the Fund to the directors, officers, full-time employees and service providers of its subsidiaries and affiliates pursuant to the 2001 unit option plan, the 2004 unit appreciation rights plan and the directors' deferred compensation plan amounted to $0.7 million for the quarter ended June 30, 2006 (2005 – $1.2 million).

Marketing expenses

Marketing expenses, which primarily consist of commissions paid to independent sales agents for signing new customers, were $14.5 million, an increase of 35% from $10.7 million in fiscal 2006. The increase is primarily attributable to the 38% increase in customers aggregated year over year, offset by the fact that the electricity commission rates per RCE are lower than natural gas commission rates. Electricity customer additions accounted for approximately 58% of the additions during the period, versus 43% in the first quarter of fiscal 2006. At the beginning of the fiscal year, management announced an increase in target aggregation costs per customer reflecting the impact of inflation and the increased effort required to secure customers.

The increase in rates is as follows:

	F2006	F2007
Gas		
Ontario	$ 160/RCE	$ 160/RCE
Other markets – Canada	$ 140/RCE	$ 160/RCE
United States	$ 90/RCE	$ 110/RCE
Electricity		
Canada	$ 85/RCE	$ 95/RCE
United States	$ 90/RCE	$ 100/RCE

Bad debt expense

In Illinois and Alberta, Energy Savings assumes the credit risk associated with the collection of its customers' accounts. Credit review processes have been established to manage the customer default rate. Management factors default from credit risk in its margin expectations for both Illinois and Alberta.

Bad debt expense for the three months ended June 30, 2006 was $1.3 million, representing 3% of $39.6 million in revenues earned in these markets. Management anticipates that bad debt expense will approximate 2.5% to 3.0% of annual revenue earned in both Illinois and Alberta. Management continuously reviews and monitors the credit approval process in order to mitigate customer delinquency.

For Energy Savings' other markets, the LDCs provide collection services and assume the risk of any bad debt owing from Energy Savings' customers.

Interest expense

As at June 30, 2006, Energy Savings had utilized $20.1 million of its operating line for working capital needs and $36.9 million in letters of credit were issued, primarily as security for commodity supply commitments. The operating line bears interest at bank prime plus 0.5% and letters of credit bear interest at 1.5%. Total interest expense for the quarter amounted to $0.5 million (2005 – $0.03 million).

Foreign exchange

Energy Savings has an exposure to foreign currency exchange rates as a result of its U.S. operations. Changes in the applicable exchange rate may result in a decrease or increase in income. A non-cash loss of $0.4 million was recognized during the quarter (2005 – $0.2 million gain).

Energy Savings has entered into foreign exchange forward contracts in order to hedge its exposure to fluctuations in cross border cash flow.

Class A preference share distributions

Each of the holders of the Ontario Energy Savings Corp ("OESC") Class A preference shares (which are exchangeable into units on a 1:1 basis) is entitled to receive, on a quarterly basis, a payment equal to the amount paid or payable to a Unitholder on a comparable number of units. The total amount paid during the first quarter amounted to $2.3 million (2005 – $2.2 million). These payments are reflected in the "Statement of Unitholders' equity" of the Fund's consolidated financial statements, net of tax.

Income tax recovery

Income tax breakdown

For the three months ended June 30

(thousands of dollars)	**2006**	2005
Income tax provision (recovery)	**$ (2,794)**	$ 1,347
Amount credited to Unitholders' equity	**840**	812
Current income tax provision (recovery)	**(1,954)**	2,159
Future tax recovery	**(553)**	(3,965)
Recovery of income tax	**$ (2,507)**	$ (1,806)

For the three months ended June 30, 2006, there was a recovery of income tax in the amount of $2.8 million, versus a corporate tax provision of $1.3 million in the prior comparative quarter. The recovery of corporate taxes which was paid in 2005 is primarily attributable to the transfer of the majority of assets and liabilities in a corporate reorganization that took place during fiscal 2006. This transfer was an interim step in the proposed tax reorganization from a "trust on corporation" structure to a "trust on trust on partnership" structure. Management has yet to receive final approval from the Canada Revenue Agency in order to complete the final stage of the reorganization.

The decrease in the future tax liability of $0.6 million is attributable to the decrease in the difference between the tax and accounting cost bases for the acquired gas and electricity contracts. The majority of these assets are deducted for tax at a rate greater than that for accounting purposes.

Liquidity and capital resources

Summary of cash flow

For the three months ended June 30

(thousands of dollars)	**2006**	2005
Operating activities	**$ 34,709**	$ 10,656
Investing activities	**(870)**	(7,479)
Financial activities, excluding distributions	**(5,014)**	11,284
Gain (loss) on foreign exchange	**(327)**	181
Increase in cash before distributions	**28,498**	14,642
Distributions (cash payments)	**(24,364)**	(22,629)
Increase (decrease in cash)	**4,134**	(7,987)
Cash – beginning of period	**11,663**	16,058
Cash – end of period	**$ 15,797**	$ 8,071

Operating activities

Cash flow from operating activities for the three months ended June 30, 2006 was $34.7 million, an increase from $10.7 million in the prior comparable period. Cash flow from operating activities has increased primarily as a result of the increase in gross margin as well as the income tax recovery in the current period versus an income tax liability paid in Q1, F2006.

Investing activities
Energy Savings purchased capital assets totaling $0.9 million during the quarter, compared with $0.7 million in the prior comparable quarter. The purchases were primarily for information technology systems supporting the Fund's expanding customer base within the various geographical segments. In the prior comparable quarter, Energy Savings also purchased the EPCOR Ontario electricity customer contracts for $6.7 million (net of adjustments).

Financing activities
Financing activities excluding distributions relate primarily to the drawdowns or repayments of the operating line for working capital requirements. During the three months ended June 30, 2006, Energy Savings had repaid $5.1 million of the operating line while during the three months ended June 30, 2005, Energy Savings had borrowed an additional $10.0 million. As anticipated, the repayment of $5.1 million during the quarter was a result of increased cash flow from U.S. operations as a result of higher gas consumption during the winter months.

As Energy Savings continues to expand in the United States markets and Alberta, the need to fund working capital and security requirements will increase driven primarily by the number of customers aggregated and to a lesser extent by the number of new markets. Based on the new markets Energy Savings is currently in and those it expects to enter, funding requirements will be supported through the credit facility.

The Fund's liquidity requirements are driven by the delay from the time that a customer contract is signed until cash flow is generated. Approximately 60% of an agent's commission payment is made following reaffirmation of the customer contract with the remaining 40% being paid after the energy commodity begins flowing to the customer.

The elapsed period between the times when a customer is signed to when the first payment is received from the customer varies with each market. The time delays per market are approximately two to six months. These periods reflect the time required by the various LDCs to enroll, flow the commodity, bill the customer and remit the first payment to Energy Savings. In Alberta, Energy Savings receives payment directly from the customer.

Distributions (cash payments)
During the quarter, the Fund made distributions of $24.4 million compared to $22.6 million in the prior comparative quarter, an increase of 8%. Energy Savings will continue to utilize its cash resources for expansion into new markets as well as distributions to its Unitholders. Management continues to target its payout ratios after customer replacement to be 75% to 80%.

As at the end of the quarter, the annual rate for distributions per unit was $0.975. The annual rate of distributions was subsequently increased to $1.005 per unit for the distribution payable on August 31, 2006.

Balance sheet as at June 30, 2006 compared to March 31, 2006
Cash increased from $11.7 million to $15.8 million. The operating line of credit decreased from $25.2 million to $20.1 million as a result of a $5.1 million repayment made during the quarter. During the quarter, Energy Savings was able to increase its cash balance as well as repay a portion of the line of credit as a result of the increased cash flow received from the U.S. operations relating to the margin earned in the fourth quarter, a period of higher consumption.

Restricted cash and the related customer rebates payable have each increased from $4.5 million to $24.2 million as a result of the funds received from the LDCs. Energy Savings will disperse the monies to its customers during the second quarter of fiscal 2007.

The decrease in accounts receivable from $149.4 million to $115.3 million is primarily attributable to the decrease in margin associated with the period of lower gas consumption in the first quarter in comparison with the fourth quarter.

At the end of the quarter, customers in Ontario and Manitoba had consumed more gas than was supplied to the LDCs for their use. Since Energy Savings is paid for this gas when delivered, yet recognizes revenue when the gas is consumed by the customer, the result on the balance sheet is the unbilled revenue amount of $2.6 million and accrued gas accounts payable of $2.1 million. In Quebec, however, at the end of the quarter, Energy Savings had delivered more gas than had been consumed by the customers, which resulted in deferred revenue of $1.2 million and gas delivered in excess of consumption of $0.9 million.

Gas in storage has increased from $4.8 million to $14.0 million as a result of the lower customer consumption in the spring than that experienced in the winter months. In addition, the balance reflects injections into storage which typically occur from April through September.

Contractual obligations

In the normal course of business, the Fund is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancelable.

Payments due by period

(thousands of dollars)	Total	Less than 1 Year	1–3 Years	4–5 Years	After 5 Years
Property and equipment lease agreements	$ 17,162	$ 2,288	$ 6,147	$ 5,211	$ 3,516
Marketing agreement obligations	169	169	–	–	–
EPCOR billing, collections and supply commitments	24,923	6,068	14,212	4,643	–
Commodity supply purchase commitments	3,902,840	945,463	1,862,773	1,006,489	88,115
	$3,945,094	$ 953,988	$1,883,132	$1,016,343	$ 91,631

Other obligations

The Fund is also subject to certain contingent obligations that become payable only if certain events or rulings were to occur. The inherent uncertainty surrounding the timing and financial impact of these events or rulings prevents any meaningful measurement, which is necessary to assess any material impact on future liquidity. Such obligations include potential judgments, settlements, fines and other penalties resulting from lawsuits, claims or proceedings. In the opinion of management, the Fund has no material pending lawsuits, claims or proceedings that have not been included either in its accrued liabilities or in the financial statements.

Transactions with related parties

The Fund does not currently have any transactions with any individuals or companies that are not considered independent to the Fund or any of its subsidiaries and/or affiliates.

Critical accounting estimates

The consolidated financial statements of the Fund have been prepared in accordance with Canadian GAAP. Certain accounting policies require management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, cost of sales and marketing and general and administrative expenses. Estimates are based on historical experience, current information and various other assumptions that are believed to be reasonable under the circumstances. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. For a detailed discussion of the significant judgments and estimates used in the preparation of the Fund's interim consolidated financial statements, refer to the Fund's annual MD&A. There are no material updates to these estimates based on events from April 1, 2006 to August 2, 2006.

Financial instruments

The Fund has entered into a variety of derivative financial instruments as part of the business of purchasing and selling gas and electricity. Energy Savings enters into contracts with customers to provide electricity and gas at fixed prices. These contracts expose Energy Savings to changes in market prices to supply these commodities. To reduce the exposure to the commodity market price changes, Energy Savings uses derivative financial and physical contracts to secure fixed price commodity supply matching its delivery obligations.

The Fund's business model objective is to minimize commodity risk other than consumption, usually attributable to weather. Accordingly, it is Energy Savings' policy to hedge the estimated requirements of its customers with offsetting volumes of natural gas and electricity at fixed prices for terms equal to those of the customer contracts.

Energy Savings' entry into Illinois and New York as well as the intention for further expansion in the U.S. has introduced foreign exchange related risks. As a result, Energy Savings entered into foreign exchange forwards in order to hedge the exposure to fluctuations in cross border cash flow.

The estimation of the fair value of certain electricity and gas supply contracts and foreign exchange risks requires considerable judgment and is based on market prices or management's best estimates if there is no market and/or if the market is illiquid.

Adoption of new accounting policies

There have been no new accounting policies adopted by the Fund for the period April 1, 2006 to August 2, 2006, nor are there changes pending or proposed. Commencing April 1, 2007, ESG will be required to comply with three new standards: Hedge Accounting, Financial Instruments and Other Comprehensive Income. These standards will require all derivative financial instruments to be fair valued and recognized in Other Assets as opposed to recognizing only the fair value of derivative financial instruments that do not meet hedge accounting requirements as is currently the case. Changes in the fair value will flow through the new Statement of Other Comprehensive Income if hedges are effective. Due to the size of the electricity derivative financial instruments, which are not currently recognized in Other Assets, these new standards will have a significant impact on the Other Assets caption of the balance sheet. Due to the volatility of market prices, it is expected that there will be significant changes flown through Other Comprehensive Income on a quarterly basis. There will be no change to management's hedge strategy as the plans are effective; the change in measurement is simply the adoption of the new accounting standards.

Risks and uncertainties

The Fund is subject to a number of risks and uncertainties that could have a material adverse effect on the results of operations, business prospects, financial condition, distributions and the trading price of the Fund. A comprehensive discussion of these risks can be found in the Fund's annual information form and the 2006 Annual Report which is available on our corporate website under "reports and filings" at www.esif.ca and from SEDAR through its website at www.sedar.com. There have been no material changes for the period April 1, 2006 to August 2, 2006 that require an update to the discussion of the applicable risks.

Corporate governance

Energy Savings is committed to transparency in its operations and its approach to governance meets all recommended standards. Full disclosure of its compliance with existing corporate governance rules is available on its website at www.esif.ca. Energy Savings actively monitors the corporate governance and disclosure environment to ensure timely compliance with current and future requirements.

Class A preference shares of OESC and trust units

As at August 2, 2006 there were 8,902,512 Class A preference shares of OESC outstanding and 97,754,196 units of the Fund outstanding.

Taxability of 2006 Unitholder distributions

Management estimates that approximately 95% of the distributions paid to Unitholders during calendar 2006 will be taxable as interest and other income, with the remainder classified as tax-deferred return of capital.

Outlook

Energy Savings continues to see strong demand for its five-year fixed price gas and electricity offerings. The 128,000 customers added was the greatest number ever added in a quarter and management remains confident that the annual target of 475,000 gross additions will be met, particularly as aggregation in the U.S. is expected to ramp up in the fall with the entrance into two new U.S. markets. Competition in the Energy Savings markets remains limited and is having little impact on marketing success.

The decline in natural gas prices during 2006 has not had any impact on margins per customer and marketing has remained strong with customers looking to lock in following the decline. Looking forward, management remains confident that it can maintain a matched hedge book locking in both gas and electricity margins at or above target levels for the foreseeable future regardless of whether prices rise or fall.

Energy Savings continues to actively monitor the progress of the deregulated markets in various jurisdictions, including Indiana, Virginia, Maryland, New Jersey, Michigan and Texas, as well as the residential gas market in British Columbia and the Illinois electricity market.

Consolidated balance sheets

(thousands of dollars)

(unaudited)	**June 30, 2006**	March 31, 2006
Assets		
Current		
Cash	**$ 15,797**	$ 11,663
Restricted cash *(Note 4)*	**24,198**	4,452
Accounts receivable	**115,256**	149,424
Gas delivered in excess of consumption	**893**	–
Gas in storage	**13,973**	4,796
Unbilled revenues	**2,584**	36,982
Prepaid expenses	**1,993**	1,479
Corporate taxes recoverable	**7,221**	4,308
	181,915	213,104
Gas contracts (less accumulated amortization – $232,173; March 31, 2006 – $228,314)	**11,755**	15,615
Electricity contracts (less accumulated amortization – $18,158; March 31, 2006 – $14,810)	**8,264**	11,611
Goodwill	**94,576**	94,576
Capital assets (less accumulated amortization – $6,781; March 31, 2006 – $6,054)	**11,406**	11,263
Other assets *(Note 9a)*	**4,981**	4,056
	$ 312,897	$ 350,225
Liabilities		
Current		
Bank indebtedness *(Note 5)*	**$ 20,104**	$ 25,184
Accounts payable and accrued liabilities	**103,046**	113,137
Customer rebates payable *(Note 4)*	**24,198**	4,452
Management incentive program payable	**1,232**	1,260
Unit distribution payable	**7,943**	7,591
Corporate taxes payable	**–**	382
Deferred revenue	**1,203**	–
Accrued gas accounts payable	**2,146**	29,901
	159,872	181,907
Deferred charges (less accumulated amortization – $5,772; March 31, 2006 – $4,440)	**2,220**	3,552
Other liabilities *(Note 9a)*	**996**	1,499
Future income taxes	**15,835**	16,388
	178,923	203,346
Equity		
Unitholders' equity	**$ 126,288**	$ 138,443
Contributed surplus *(Note 8d)*	**7,686**	8,436
	133,974	146,879
	$ 312,897	$ 350,225

Consolidated statements of Unitholders' equity

For the three months ended June 30 (thousands of dollars)

(unaudited)	Unitholders' Capital *(Note 7)*	Accumulated Earnings	Distributions	2006	2005
Unitholders' equity, beginning of period	**$ 324,650**	**$ 143,890**	**$(330,097)**	**$ 138,443**	$ 173,106
Trust units exchanged	**3,166**	**–**	**–**	**3,166**	–
Trust units issued on exercise/exchange of unit compensation *(Note 8)*	**1,559**	**–**	**–**	**1,559**	1,476
Class A preference shares exchanged	**(3,166)**	**–**	**–**	**(3,166)**	–
Net income	**–**	**11,005**	**–**	**11,005**	11,125
Distributions	**–**	**–**	**(23,234)**	**(23,234)**	(21,214)
Class A preference share distributions – net of tax	**–**	**–**	**(1,485)**	**(1,485)**	(1,436)
Unitholders' equity, end of period	**$ 326,209**	**$ 154,895**	**$(354,816)**	**$ 126,288**	$ 163,057

Consolidated statements of operations

For the three months ended June 30 (thousands of dollars)

(unaudited)	2006	2005
Sales	**$ 285,550**	$ 234,405
Cost of sales	**244,390**	197,303
Gross margin	**41,160**	37,102
Expenses		
General and administrative expenses	**10,491**	8,301
Capital tax	**180**	207
Marketing expenses	**14,460**	10,699
Unit based compensation *(Note 8)*	**740**	1,172
Bad debt expense	**1,277**	534
Amortization of gas contracts	**3,859**	7,437
Amortization of electricity contracts	**2,016**	1,306
Amortization of capital assets	**727**	544
	33,750	30,200
Income before other income	**7,410**	6,902
Other income	**1,088**	2,417
Income before income tax	**8,498**	9,319
Recovery of income tax	**(2,507)**	(1,806)
Net income	**$ 11,005**	$ 11,125
Net income per unit (Note 10)		
Basic	**$ 0.10**	$ 0.11
Diluted	**$ 0.10**	$ 0.10

Consolidated statements of cash flows

For the three months ended June 30 (thousands of dollars)

(unaudited)	**2006**	2005
Net inflow (outflow) of cash related to the following activities		
Operating		
Net income	**$ 11,005**	$ 11,125
Items not affecting cash		
Amortization of gas contracts	**3,859**	7,437
Amortization of electricity contracts	**2,016**	1,306
Amortization of capital assets	**727**	544
Unit based compensation	**740**	1,172
Future income taxes	**(553)**	(3,965)
Loss (gain) on foreign exchange (unrealized)	**405**	(181)
Other income (unrealized)	**(1,709)**	(2,249)
	5,485	4,064
Adjustments required to reflect net cash receipts from gas sales	**6,953**	5,564
	23,443	20,753
Changes in non-cash working capital	**11,266**	(10,097)
Cash inflow from operations	**34,709**	10,656
Financing		
Exercise of trust unit options *(Note 8)*	**66**	1,284
Distributions paid to Unitholders	**(22,879)**	(21,193)
Distributions to Class A preference shareholders	**(2,325)**	(2,248)
Tax impact on distributions to Class A preference shareholders	**840**	812
Bank indebtedness *(Note 5)*	**(5,080)**	10,000
	(29,378)	(11,345)
Investing		
Purchase of capital assets	**(870)**	(740)
Acquisition of customer contracts	**–**	(6,739)
	(870)	(7,479)
Gain (loss) on foreign exchange (unrealized)	**(405)**	181
Other income foreign exchange (unrealized)	**78**	–
Net cash inflow (outflow)	**4,134**	(7,987)
Cash, beginning of period	**11,663**	16,058
Cash, end of period	**$ 15,797**	$ 8,071

Supplemental information		
Interest paid	**$ 494**	$ 25
Income taxes paid	**$ 681**	$ 9,786

Note 1. Interim financial statements

The unaudited interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the audited consolidated financial statements and notes thereto included in the Fund's annual report for fiscal 2006. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements and follow the same accounting policies and methods in their applications as the most recent annual financial statements.

Note 2. Organization

Energy Savings Income Fund ("Energy Savings" or the "Fund")

Energy Savings is an open-ended, limited-purpose trust established under the laws of the Province of Ontario to hold securities and to distribute the income of its directly or indirectly wholly owned subsidiaries and affiliates: Ontario Energy Savings L.P. ("OESLP"), Energy Savings (Manitoba) Corp. ("ESMC"), Energy Savings (Quebec) L.P. ("ESPQ"), ES (B.C.) Limited Partnership ("ESBC"), Alberta Energy Savings L.P. ("AESLP"), Illinois Energy Savings Corp. ("IESC") and New York Energy Savings Corp. ("NYESC").

Note 3. Seasonality of operations

Energy Savings' operations are seasonal. Gas consumption by customers is typically highest in October through March and lowest in April through September. Electricity consumption is typically highest in January through March and July through September. Electricity consumption is lowest in October through December and April through June.

Note 4. Restricted cash/customer rebates payable

Restricted cash represents rebate monies received from Local Distribution Companies ("LDCs") in Ontario as provided by the Independent Electricity System Operator. OESLP is obligated to disperse the monies to eligible end-use customers in accordance with the Market Power Mitigation Agreement as part of OESLP's Retailer License conditions.

Note 5. Bank indebtedness

An operating credit facility in the amount of $100,000 is available to Energy Savings to meet working capital requirements. The operating line of credit bears interest at bank prime plus 0.5% and the letters of credit bear interest at 1.5%. As at June 30, 2006, the Canadian prime rate was 6.0% and the U.S. prime rate was 8.25%. As at June 30, 2006, Energy Savings had drawn $20,104 against the facility and total letters of credit outstanding amounted to $36,861. Energy Savings has $43,035 of the facility remaining for future working capital and security requirements. Energy Savings' obligations under the credit facility are supported by guarantees of certain subsidiaries and affiliates and secured by a pledge of the assets of Energy Savings and the majority of its operating subsidiaries and affiliates. Energy Savings is required to meet a number of financial covenants under the credit facility agreement. As at June 30, 2006 and 2005, all of these covenants have been met.

Note 6. Income taxes

The Fund is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees will distribute all taxable income directly earned by the Trust to the Unitholders and deduct such distributions for income tax purposes.

Canadian based corporate subsidiaries are subject to tax on their taxable income at a rate of 36% (2005 – 36%).

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to the pre-tax income for Energy Savings and the income tax provision in the financial statements.

	2006	2005
Net income before income tax	**$ 8,498**	$ 9,319
Income tax expense at the combined basic rate of 36% (2005 – 36%)	**3,059**	3,355
Taxes on income attributable to Unitholders	**(7,390)**	(6,496)
Large corporations tax	**–**	19
Benefit of U.S. accounting losses not recognized	**1,552**	838
Non-deductible expenses	**272**	478
Income tax recovery	**$ (2,507)**	$ (1,806)

Components of Energy Savings' income tax provision are as follows:

Income tax provision (recovery)	**$ (2,794)**	$ 1,347
Amount credited to Unitholders' equity	**840**	812
Current income tax provision	**(1,954)**	2,159
Future tax recovery	**(553)**	(3,965)
Recovery of income tax	**$ (2,507)**	$ (1,806)

Components of Energy Savings' net future income tax liability are as follows:

Carrying value of gas and electricity contracts in excess of tax value	**$ 7,241**	$ 11,526
Partnership income deferred for tax purposes	**4,660**	1,006
Other	**3,934**	4,523
	$ 15,835	$ 17,055

Note 7. Unitholders' capital

Trust units of the Fund

An unlimited number of units may be issued. Each unit is transferable, voting and represents an equal undivided beneficial interest in any distributions from the Fund whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund.

Class A preference shares of OESC

Unlimited Class A preference shares, non-voting for OESC, non-cumulative, exchangeable into trust units in accordance with the OESC shareholders' agreement, with no priority on dissolution. Pursuant to the amended and restated Declaration of Trust which governs the Fund, the holders of Class A preference shares are entitled to vote in all votes of Unitholders as if they were the holders of the number of units which they would receive if they exercised their shareholder exchange rights. Class A preference shareholders have equal entitlement to distributions from the Fund as Unitholders.

		2006		2005
Issued and Outstanding	**Units/Shares**		Units/Shares	
Trust units				
Balance, beginning of period	**96,391,991**	**$ 299,228**	95,515,617	$ 147,684
Options exercised	**7,166**	**80**	266,667	1,476
Unit appreciation rights exchanged	**88,856**	**1,479**	–	–
Class A preference shares exchanged	**1,266,183**	**3,166**	–	–
Balance, end of period	**97,754,196**	**303,953**	95,782,284	149,160
Class A preference shares				
Balance, beginning of period	**10,168,695**	**25,422**	10,168,695	25,422
Exchanged into units	**(1,266,183)**	**(3,166)**	–	–
Balance, end of period	**8,902,512**	**22,256**	10,168,695	25,422
Balance, end of period	**106,656,708**	**$ 326,209**	105,950,979	$ 174,582

Note 8. Unit based compensation plans

(a) Unit option plan

The Fund grants awards under its 2001 unit option plan to directors, officers, full-time employees and service providers (non-employees) of Energy Savings. In accordance with the unit option plan, the Fund may grant options to a maximum of 11,300,000 units. As at June 30, 2006 there were 754,166 options still available for grant under the plan. Of the options issued, 1,325,501 options remain outstanding at quarter end. The exercise price of the unit options equals the closing market price of the Fund's units on the last business day preceding the grant date. The unit options will vest over periods ranging from three to five years from the grant date and expire after five or 10 years from the grant date.

A summary of the status of the Fund's unit option plan is outlined below.

	Outstanding Options	Range of Exercise Prices	Weighted Average Exercise Price[1]	Weighted Average Grant Date Fair Value[2]
Balance, beginning of period	1,227,667	$6.09–$18.70	$ 13.44	
Granted	120,000	$16.65–$17.47	$ 16.99	$ 2.65
Forfeited/canceled	(15,000)	$15.63–$16.65	$ 16.50	
Exercised	(7,166)	$8.75–$15.63	$ 9.23	
Balance, end of period	1,325,501	$6.09–$18.70	$ 13.75	

[1] *The weighted average exercise price is calculated by dividing the exercise price of options granted by the number of options granted.*

[2] *The weighted average grant date fair value is calculated by dividing the fair value of options granted by the number of options granted.*

		Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$6.09–$8.75	36,835	1.45	$	7.97	36,835	$ 7.97
$10.68–$12.01	126,666	1.98	$	11.16	126,666	$ 11.16
$12.17	600,000	1.75	$	12.17	600,000	$ 12.17
$14.25–$18.70	562,000	3.67	$	16.39	117,167	$ 16.41
Balance, end of period	1,325,501	2.58	$	13.75	880,668	$ 12.41

Options Available for Grant

Available for grant	11,300,000
Less: granted in prior years	(11,358,000)
Add: canceled/forfeited in prior years	917,166
Balance, beginning of period	859,166
Less: granted during the period	(120,000)
Add: canceled/forfeited during the period	15,000
Balance, end of period	754,166

The Fund uses a binomial option pricing model to estimate the fair values of options granted. The binomial model was chosen because of the yield associated with the units. Fair values of employee unit options are estimated at grant date. Fair values of non-employee unit options are estimated and revalued each reporting period until a measurement date is achieved. The following weighted average assumptions have been used in the valuations for 2007:

Risk free rate	4.23%–4.48%
Expected volatility	25.59%–25.60%
Expected life	5 years
Expected distributions	$0.945–$0.975 per year

(b) Unit appreciation rights

The Fund grants awards under its 2004 unit appreciation rights ("UARs") plan to senior officers or service providers of its subsidiaries and affiliates in the form of fully paid UARs. In accordance with the unit appreciation rights plan, the Fund may grant UARs to a maximum of 1,000,000. As at June 30, 2006, there were 523,722 UARs still available for grant under the plan. Except as otherwise provided, (i) the UARs vest from one to five years from the grant date; (ii) expire no later than 10 years from the grant date; (iii) a holder of UARs is entitled to distributions as if a UAR were a unit; and (iv) when vested, the holder of a UAR may exchange one UAR for one unit.

UARs Available for Grant	
Available for grant	1,000,000
Less: granted in prior years	(501,209)
Balance, beginning of period	498,791
Less: granted during the period	(47,442)
Add: forfeited/canceled during the period	72,373
Balance, end of period	523,722

(c) Deferred unit grants

The Fund grants awards under its 2004 directors' deferred compensation plan to all independent directors. In accordance with the deferred compensation plan, the Fund may grant deferred unit grants ("DUGs") to a maximum of 100,000. The DUGs vest the earlier of the date of the director's resignation or three years following the date of grant and expire 10 years following the date of grant. As of June 30, 2006, there were 81,180 DUGs available for grant under the plan.

DUGs Available for Grant	
Available for grant	100,000
Less: granted in prior years	(17,219)
Balance, beginning of period	82,781
Less: granted during the period	(1,601)
Balance, end of period	81,180

(d) Contributed surplus

Amounts credited to contributed surplus include option awards, UARs and DUGs. Amounts charged to contributed surplus are awards exercised during the year.

Contributed Surplus	**2007**	2006
Balance, beginning of period	**8,436**	4,881
Add: unit based compensation awards	**740**	1,172
Less: unit based awards exercised	**(1,490)**	(192)
Balance, end of period	**7,686**	5,861

Total amounts credited to Unitholders' capital in respect of options and UARs exercised or exchanged during the three months ended June 30, 2006 amounted to $1,559 (2005 – $1,476).

Cash received from options exercised for the three months ended June 30, 2006 amounted to $66 (2005 – $1,284).

Note 9. Financial instruments

(a) Fair value

The Fund has a variety of gas and electricity supply contracts that are considered derivative instruments. The fair value of derivative instruments is the estimated amount that Energy Savings would pay or receive to dispose of these supply contracts in the market. Management has estimated the value of electricity and gas swap contracts using a discounted cash flow method which employs market forward curves as well as a forward curve compiled by management for Alberta electricity (electricity information is based on market). Gas options have been valued using the Black option value model using the applicable market forward curves and the implied volatility from other market traded gas options.

(i)(a) At June 30, 2006, Energy Savings had electricity fixed-for-floating swap contracts in Ontario designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak, flat, off peak and weekend)	5.0–50.0 MW/h
Total remaining notional volume (peak, flat off peak and weekend)	15,750,297 MWh
Maturity dates	July 31, 2006–December 31, 2011
Fixed price per MWh (in dollars)	$45.00–$118.00
Fair value	$69,354 unfavorable
Notional value	$1,125,549

(i)(b) At June 30, 2006, Energy Savings had electricity fixed-for-floating swap contracts in Alberta designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and off peak)	0.1–7.9 MW/h
Total remaining estimated notional volume (peak, off peak and load following)	3,217,708 MWh
Maturity dates	July 31, 2006–May 31, 2012
Fixed price per MWh (in dollars)	$55.80–$80.85
Fair value	$12,663 favorable
Notional value	$223,063

(i)(c) At June 30, 2006, Energy Savings had electricity fixed-for-floating swap contracts in New York designated as hedges of Energy Savings' anticipated cost of sales to which it has committed with the following terms:

Notional volumes (peak and off peak)	0.9–14.4 MW/h
Total remaining notional volume (peak and off peak)	1,448,181 MWh
Maturity dates	July 31, 2006–April 30, 2011
Fixed price per MWh (in dollars)	$104.28–$127.19 (US$93.42–US$113.95)
Fair value	$27,221 (US$24,388) unfavorable
Notional value	$176,546 (US$158,167)

Since hedge accounting has been applied to these swaps, the mark to market gain/loss has not been recognized in these financial statements. The electricity fixed-for-floating contracts related to the Province of Alberta are predominantly load following, wherein the quantity of electricity contained in the supply contract “follows” the usage of customers designated by the supply contract. Notional volumes associated with these contracts are estimates and subject to change with customer usage requirements. There are also load shaped fixed-for-floating contracts in Ontario and New York wherein the quantity of electricity is established but varies throughout the term of the contracts.

(ii) At June 30, 2006, Energy Savings had other gas puts and calls in Manitoba which have been marked to market with the following terms:

Notional volume	450–51,750 GJ/month
Total remaining notional volume	1,661,685 GJ
Maturity dates	July 31, 2006–June 30, 2011
Fixed price per GJ (in dollars)	$5.48–$9.18
Fair value	$416 unfavorable

The gain of $262 (2005 – $1,028 gain) for the three months ended June 30, 2006 has been recorded in other liabilities with its offsetting value being recorded in other income (expense). The fair value of the options is net of the present value of premiums which have yet to be paid.

(iii) At June 30, 2006, Energy Savings had other gas puts and calls in Alberta which have been marked to market with the following terms:

Notional volume	500–48,000 GJ/month
Total remaining notional volume	7,614,500 GJ
Maturity dates	July 31, 2006–May 31, 2011
Fixed price per GJ (in dollars)	$5.50–$12.40
Fair value	$256 unfavorable

The gain of $315 (2005 – $310 gain) for the three months ended June 30, 2006, has been recorded in other liabilities with its offsetting value being recorded in other income (expense). The fair value of the options is net of the present value of premiums which have yet to be paid.

(iv) At June 30, 2006, Energy Savings had other gas put and call options in Illinois which have been marked to market with the following terms:

Notional volume	500–134,000 MmBTU/month
Total remaining notional volume	7,109,000 MmBTU
Maturity dates	July 31, 2006–May 31, 2011
Fixed price per MmBTU (in dollars)	$6.14–$11.16 (US$5.50–US$10.40)
Fair value	$3,138 (US$2,811) favorable

The fair value is net of prepaid premiums of $1,843 (US $1,651). These premiums are included in other assets. The gain of $1,217 (US $1,090) (2005 – $1,056 gain (US$862)) for the three months ended June 30, 2006 has been recorded in other liabilities with its offsetting value being recorded in other income (expense).

(v) At June 30, 2006, Energy Savings had gas put and call options in New York which have been marked to market with the following terms:

Notional volume	35–1,775 MmBTU/month
Total remaining notional volume	763,356 MmBTU
Maturity dates	July 31, 2006–July 31, 2011
Fixed price per MmBTU (in dollars)	$9.04–$12.68 (US $8.10–US$11.36)
Fair value	$325 (US$291) unfavorable

The loss of $86 (US $77) (2005 – N/A) for the three months ended June 30, 2006 has been recorded in other liabilities with its offsetting value being recorded in other income (expense). The fair value of the options is net of the present value of premiums which have yet to be paid.

(vi) The Fund has foreign exchange forwards that are considered derivative financial instruments. The fair value of derivative financial instruments is the estimated amount that Energy Savings would pay or receive to dispose of these forwards at market. Management has estimated the value of its foreign exchange forwards using a discounted cash flow method which employs market forward curves. Since hedge accounting has been applied to these forwards, the mark to market gain has not been recognized in these financial statements. At June 30, 2006 Energy Savings had foreign exchange forwards designated as hedges of Energy Savings' anticipated cross border cash flow which it has committed with the following terms:

Notional amount	$2,258–$2,276 (US$2,000)
Total remaining notional amount	$54,408 (US$48,000)
Maturity dates	May 7, 2008–April 7, 2010
Exchange rates	$1.1289–$1.1381
Fair value	$1,873 favorable

These derivative financial instruments create a credit risk for Energy Savings since they have been transacted with a limited number of counterparties. Should any counterparty be unable to fulfill its obligations under the contracts, Energy Savings may not be able to realize the other asset balance recognized in the financial statements.

Energy Savings' physical gas supply contracts are not considered derivative instruments and a fair value has therefore not been assessed.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, management incentive program payable and unit distribution payable approximates their fair value due to their short-term liquidity.

(b) Customer credit risk

In Illinois and Alberta, Energy Savings assumes the credit risk associated with cash collections from its customers. Credit review processes have been put in place for these markets where Energy Savings has credit risk. If a significant number of customers were to default on their payments, it could have a material adverse effect on Energy Savings' operations and cash flow. Credit review processes have been put in place for these markets to manage the customer default rate. Management factors default from credit risk in its margin expectations for both Illinois and Alberta.

For the remaining markets in which Energy Savings operates, the LDCs provide collection services and assume the risk of any bad debts owing from Energy Savings' customers. Therefore, Energy Savings receives the collection of customer account balances directly from the LDCs. Management believes that the risk of the LDCs failing to deliver payment to Energy Savings is minimal.

(c) Supplier risk

Energy Savings purchases the majority of the gas and electricity delivered to its customers through long-term contracts entered into with various suppliers. Energy Savings has an exposure to supplier risk as the ability to continue to deliver gas and electricity to its customers is reliant upon the ongoing operations of these suppliers, and their ability to fulfill their contractual obligations. A significant portion of these gas and electricity purchases is from Coral Energy, an affiliate of Shell Trading.

(d) Foreign currency risk

Energy Savings has an exposure to foreign currency exchange rates, as a result of its investment in U.S. operations. Changes in the applicable exchange rate may result in a decrease or increase in income. A non-cash loss of $405 for the three months ended June 30, 2006 (2005 – $181 gain) has been recorded in other income (expense).

Energy Savings has entered into foreign exchange forward contracts in order to hedge its exposure to fluctuations in cross border cash flow (see Note 9(a)(vi)).

Note 10. Net income per unit

	2006	2005
Basic income per unit		
Net income available to Unitholders	**$ 11,005**	$ 11,125
Weighted average number of units outstanding	**96,445**	95,586
Weighted average number of Class A preference shares	**10,155**	10,169
Basic units and shares outstanding	**106,600**	105,755
Basic income per unit	**$ 0.10**	$ 0.11
Diluted income per unit		
Net income available to Unitholders	**$ 11,005**	$ 11,125
Basic units and shares outstanding	**106,600**	105,755
Dilutive effect of:		
Unit options	**268**	732
Unit appreciation rights	**423**	241
Deferred unit grants	**14**	9
Units outstanding on a diluted basis	**107,305**	106,737
Diluted income per unit	**$ 0.10**	$ 0.10

Note 11. Reportable business segments

Energy Savings operates in two reportable geographic segments, Canada and the United States. Reporting by geographic region is in line with Energy Savings' performance measurement parameters. Both the Canadian and U.S. operations have both gas and electricity business segments.

Energy Savings evaluates segment performance based on gross margin.

The following table presents Energy Savings' results from continuing operations by geographic segment:

For the three months ended June 30, 2006	Canada	United States	Consolidated
Sales – gas	**$ 141,981**	**$ 18,698**	**$ 160,679**
Sales – electricity	**115,852**	**9,019**	**124,871**
Sales	**$ 257,833**	**$ 27,717**	**$ 285,550**
Gross margin	**$ 39,019**	**$ 2,141**	**$ 41,160**
Amortization of gas contracts	**(3,859)**	**–**	**(3,859)**
Amortization of electricity contracts	**(2,016)**	**–**	**(2,016)**
Amortization of capital assets	**(606)**	**(121)**	**(727)**
Other operating expenses	**(20,299)**	**(6,849)**	**(27,148)**
Other income	**572**	**516**	**1,088**
Recovery of income tax	**2,507**	**–**	**2,507**
Net income (loss)	**$ 15,318**	**$ (4,313)**	**$ 11,005**
Additions to capital assets	**$ 561**	**$ 309**	**$ 870**
Total goodwill	**$ 94,576**	**$ –**	**$ 94,576**
Total assets	**$ 270,743**	**$ 42,154**	**$ 312,897**

For the three months ended June 30, 2005	Canada	United States	Consolidated
Sales – gas	$ 137,021	$ 6,612	$ 143,633
Sales – electricity	90,772	–	90,772
Sales	$ 227,793	$ 6,612	$ 234,405
Gross margin	$ 36,161	$ 941	$ 37,102
Amortization of gas contracts	(7,437)	–	(7,437)
Amortization of electricity contracts	(1,306)	–	(1,306)
Amortization of capital assets	(531)	(13)	(544)
Other operating expenses	(16,427)	(4,486)	(20,913)
Other income (expense)	1,185	1,232	2,417
Provision for income tax	1,806	–	1,806
Net income (loss)	$ 13,451	$ (2,326)	$ 11,125
Additions to capital assets	$ 728	$ 12	$ 740
Total goodwill	$ 94,576	$ –	$ 94,576
Total assets	$ 315,979	$ 16,554	$ 332,553

Note 12. Guarantees

(a) Officers and directors

Corporate indemnities have been provided by the Fund to all directors and certain officers of its subsidiaries and affiliates for various items including, but not limited to, all costs to settle suits or actions due to their association with the Fund and its subsidiaries and/or affiliates, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. Each indemnity, subject to certain exceptions, applies for so long as the indemnified person is a director or officer of one of the Fund's subsidiaries and/or affiliates. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Operations

In the normal course of business, the Fund and/or the Fund's subsidiaries and affiliates have entered into agreements that include guarantees in favour of third parties, such as purchase and sale agreements, leasing agreements and transportation agreements. These guarantees may require the Fund and/or its subsidiaries and affiliates to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The maximum amount payable under these guarantees is estimated to be $29,000.

Note 13. Commitments

(a) Commitments for premises and equipment under operating lease obligations for each of the next five years are as follows:

2007	$	2,288
2008		3,087
2009		3,060
2010		2,912
2011		2,299
	$	13,646

(b) Commitments under the Master Services Agreement with EPCOR for the duration of the agreement are as follows:

2007	$	6,068
2008		7,247
2009		6,965
2010		4,643
	$	24,923

(c) Commitments under long-term gas and electricity contracts with various suppliers for each of the next five years are as follows:

2007	$	945,463
2008		1,049,710
2009		813,063
2010		617,357
2011		389,132
	$	3,814,725

(d) The commitment under the Marketing Agreement for the remainder of fiscal 2007 is $169.

Energy Savings is also committed under long-term contracts with customers to supply gas and electricity. These contracts have various expiry dates and renewal options.

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Brennan R. Mulcahy
Chief Executive Officer

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President

Mary Meffe, C.A.
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The Hon. Michael J.L. Kirby
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